MEDPAC Medicare Payment Advisory Commission

ISSUE BRIEF

November 16-17, 2004

Variation in hospital financial performance under Medicare

ISSUE: What role do cost factors have in explaining why some hospitals do well and some do poorly under Medicare.

KEY POINTS: Prior analysis the Commission published in it June 2003 report showed that about a quarter of the variation in financial performance in 1998 can be attributed to payment system factors such as the indirect medical education and disproportionate share adjustments. About a fifth of the variation was found to be attributable to operating characteristics thought to be at least partially under the control management, such as occupancy rates and length of stay. Market characteristics, such as population demographics of provider supply were not found to be an important source of variation in financial performance. Provider financial performance, though, can vary substantially from one year to the next and thus a single year margin might not provide the best representation of provider financial performance.

This analysis examines hospital margin data from 1999 through 2002, focusing on the characteristics of hospitals with consistently negative financial performance under Medicare over the four-year period. The analysis concentrates on examining measures of costliness, including change in length of stay, hospital occupancy rates, Medicare standardized cost per case, and average annual change in Medicare costs per case. These costliness measures will help shed light on factors related to poor financial performance. The analysis also examines market characteristics, such the financial performance of nearby hospitals.

ACTION: This along with other information to be presented in December will inform the Commission's discussion on payment adequacy for hospitals.

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